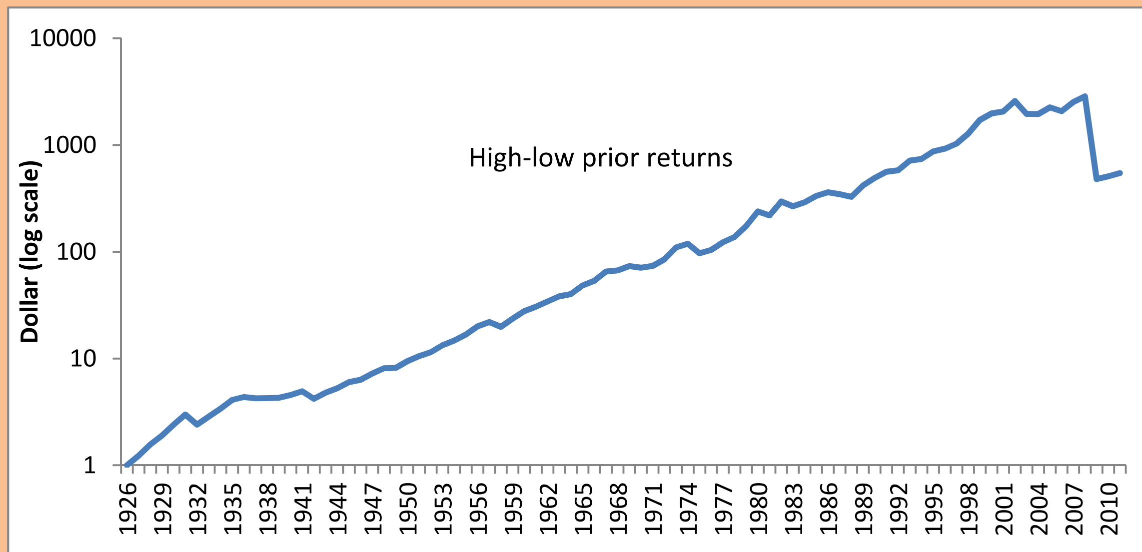
The Momentum Effect

In Chapter 8 we plotted the cumulative difference between the returns on small and large cap stocks and between stocks with a high and low ratio of book-to-market value. The following figure suggests that there may also be a momentum factor. It plots the difference between stocks that have performed well during the past 12 months and those that have performed badly. The average annual difference between the returns on the two groups of stocks over the period 1926-2011 is 9.7%.

As in the case of the size and book-to-market effects, we cannot be sure whether the extra returns are a coincidence, evidence of a risk-factor for which investors demand an extra return, or evidence of a market inefficiency that has offered easy profits.



Source: Kenneth French's Web site mba.tuck.dartmouth.edu/pages/faculty/ken.french/data
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